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TAGS: ECON PGOV PREL GG

SUBJECT: GEORGIA: MINISTER OF ECONOMIC DEVELOPMENT SACKED

Classified By: Ambassador John F. Tefft for reasons 1.4 (b) and (d).

¶1. (C) Summary: Prime Minister Nika Gilauri fired Minister of Economic Development Lasha Zhvania on August 21, ostensibly for poor performance. Zhvania held a near simultaneous press conference in which he announced he was resigning from the Ministry due in part to interference by others in the government. Gilauri and Zhvania have been involved in an ongoing power struggle since the two were appointed late last fall. The announcement comes as no real surprise, and a close associate of Zhvania's confirmed that Zhvania himself long expected to be ousted given his close relationship with Irakli Alasania and his attempts to remake what has been a fairly dysfunctional ministry. End Summary.

¶2. (C) Zhvania and Gilauri clashes began in late 2008 while Gilauri was still Finance Minister. At the time the disagreements appeared to be based on rivalry between the ministries. When Gilauri became PM in February 2009, the disagreements continued and increased in intensity in the last two months. In a rarity for Georgian press, the media even began to cover the disintegrating relationship. Many believe Zhvania was appointed Minister in late 2008 to stop him from creating a parliamentary faction supporting Irakli Alasania. Despite his lack of economic credentials, Zhvania immediately began trying to reform the Ministry of Economic Development (MOED), tackling conventional wisdom that economic policy was controlled by key personalities within the Chancellery, namely Kakha Bendukidze. Within a month of taking office, Zhvania had fired all of Bendukidze's people inside the Ministry, including Deputy Ministers Tamara Kovziridze and Vato Lezhava. Both quickly found positions as senior advisors to the PM, where they essentially maintained all of their responsibilities and created a shadow ministry. Zhvania himself told econoff that he had to replace these deputy ministers, as they were reporting everything back to Bendukidze who then would try to scuttle Zhvania's work. Zhvania said he met resistance in particular to attempts to develop a comprehensive economic policy to encourage export and domestic manufacturing. (Comment: Such efforts would run contrary to many, including Bendukidze's, libertarian laissez faire theory of economics. End Comment.)

¶3. (C) Last week, Deputy Minister of Economic Development Irakli Gachechiladze expressed frustration to econoff that the PM's office stymied progress on all fronts. He complained that he could not address European concerns in order to initiate free trade negotiations because the PM's office refused to address serious deficiencies in Georgia's non-competition policy. Gachechiladze said that given Georgia's lack of progress on these issues, he expects the EU will not recommend opening free trade negotiations in 2009. Zhvania in his statement to the press specifically mentioned a disagreement with the Prime Minister on the PM's lack of support for & speeding up a comprehensive free trade agreement with the European Union.8

¶4. (C) In addition to assigning tasks normally fundamental to a Ministry of Economy, such as trade negotiations and policy, to the PM's office, many of the Ministry's other tasks had recently been reassigned. The Ministry of Finance

founded a new Investment Risk Management Agency (IRMA) that nominally was tasked with researching options for insurance for investors. However, IRMA Director Zurab Simonia told econoff that according to the Finance Minister, he and the Ministry of Finance would soon take over GNIA. Also, QMinistry of Finance would soon take over GNIA. Also, according to Zhvania, the Minister of Health had been tasked with negotiating a new investment treaty with the Czech Republic, something out of line with his normal responsibilities. In the PM's announcement he specifically mentioned Zhvania's failure with the Czech agreement, and criticized Health Minister Sandro Kvitašvili as well.

¶ 15. (C) Gilauri pledged to name a new minister within two weeks as required by law. The press is speculating that the current Ambassador to Spain Zurab Pololikashvili will soon be named to replace Zhvania. Pololikashvili, a former banker at TBC Bank, is reported to be a &Saakashvili team member.<sup>8</sup> He also served as Deputy Foreign Minister prior to his appointment as Ambassador to Spain.

¶ 16. (C) Comment: Zhvania's removal comes as a surprise to no one. He has rapidly been sidelined from key economic decisions and has watched his ministry's responsibilities shrink. Members of Zhvania's inner circle believe that Zhvania simply tried to make too many changes and that many in the government hoped he would be just another figurehead minister at MOED. His aggressive efforts to take on the circles of influence of those &unofficially<sup>8</sup> running the Georgian economy only made him more unpopular with GOG insiders.

TEFFT